

Message Text

SECRET

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ACTION SS-25

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P R 241312Z OCT 74
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 5061
INFO AMEMBASSY TEHRAN
AMEMBASSY JIDDA

S E C R E T SECTION 01 OF 03 LONDON 13873

EXDIS

E.O. 11652: GDS
TAGS: PFOR, ENRG, US, IR, XF
SUBJECT: POLICY RECOMMENDATION FOR AN APPROACH ON OIL
PRICES TO THE SHAH OF IRAN

1. THIS EMBASSY HAS BECOME INCREASINGLY CONCERNED OVER THE IMPLICATIONS OF HIGH-AND-RISING OIL PRICES. ALTHOUGH WE HAVE SEEN ONLY A SMALL PERCENTAGE OF THE ANALYSES AND TRAFFIC CONCERNING THE INCREASE IN OIL PRICES, WE ASSUME THE DEPARTMENT AGREES THAT THE WORLD CANNOT LIVE WITH THE PRESENT TREND MUCH LONGER WITHOUT COURTING A WORLDWIDE BALANCE-OF-PAYMENTS CRISIS WITH CRITICAL EFFORTS WE HAVE ALREADY MADE ELSEWHERE, IT APPEARS TO US WE HAVE NOT YET UNDERTAKEN THE KIND OF HIGH-LEVEL APPROACH TO THE SHAH WHICH MIGHT LEAD TO A CHANGE IN IRANIAN OIL PRICE POLICY. SHOULD SUCH AN APPROACH BE MADE, WE BELIEVE WE CAN CARRY KEY WEST EUROPEAN ALLIES SUCH AS THE BRITISH ALONG WITH US, IF THAT BECOMES NECESSARY.

2. THERE ARE SIDE RISKS TO ANY POLICY WHICH POSITS GETTING TOUGH WITH AS VALUABLE A CUSTOMER AND ALLY AS THE SHAH. YET SUCH RELATIONSHIPS MUST BE TWO-WAY. HIS PRESENT OIL POLICIES ARE HURTING THE WEST TOO MUCH. WE BELIEVE THE MOMENT HAS ARRIVED WHEN A DIRECT APPROACH BY THE HIGHEST LEVELS OF THE USG TO THE SHAH HAS BECOME

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ESSENTIAL.

3. THE FOLLOWING POLICY SUGGESTION IS THEREFORE SUBMITTED FOR THE SECRETARY'S CONSIDERATION:

A. THE PROBLEM.

HIGH OIL PRICES HAVE BECOME THE MOST URGENT PROBLEM FOR US FOREIGN POLICY AT THIS TIME, PERHAPS EQUALED ONLY BY (BUT SEPARATE FROM) THE MIDDLE EAST SETTLEMENT NEGOTIATIONS. OPEC NATIONS ARE OPERATING ON THE PRINCIPLE THAT HIGH AND RISING PRICES ARE IN THEIR OWN SELF-INTEREST. (THERE ARE NO INDICATIONS THAT OPEC PRODUCERS WILL BE SERIOUSLY RESTRAINED BY THE MERE THREAT OF WORLDWIDE DEPRESSION. IF THAT DEPRESSION COMES, THEIR RESTRAINT WILL BE TOO LATE.) THE TREND TOWARD CONTINUING PRICE RISES IS UNLIKELY TO BE REVERSED AS LONG AS THE PRODUCERS ENJOY AN OLIGOPOLISTIC POSITION. ONE CANNOT EXPECT ECONOMIC FACTORS ALONE TO ARREST OR REVERSE THIS TREND FOR THE FORESEEABLE FUTURE. MEANWHILE, OUR EMPHASIS MUST BE ON POLITICAL ARGUMENTS.

B. THE APPROACH.

EFFORTS TO DISCUSS THIS PROBLEM WITH PRODUCERS HAVE SO FAR FOCUSED MAINLY ON SAUDI ARABIA AND OTHER ARAB NATIONS. IT IS TIME TO FOCUS PRIMARILY ON THE SHAH OF IRAN. SHOULD HE MAKE ECONOMIC CONCESSIONS, THERE IS A GOOD PROSPECT OF CARRYING ALONG SAUDI ARABIA AND THE BULK OF OIL-PRODUCING NATIONS. THE APPROACH TO THE SHAH HAS TO BE MADE BY THE STRONGEST OF HIS OIL CUSTOMERS, WHO ALSO HAPPENS TO ENJOY EXCELLENT RELATIONS WITH HIM ON THE BASIS OF PAST, PRESENT, AND FUTURE BENEFACTION. THE SHAH IS NOT ONE TO BE EASILY MOVED. THE APPROACH HAS TO BE BY A VERY HIGH-LEVEL EMISSARY OF THE U.S. PRESIDENT. SECRETARY KISSINGER WOULD BE THE BEST. HIS FORTHCOMING STOPOVER IN TEHRAN WOULD PROVIDE THE OPPORTUNITY.

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C. THE ARGUMENT.

SECRETARY KISSINGER SHOULD SPEAK TO THE SHAH STRAIGHT FROM THE SHOULDER. HE SHOULD AIM AT REMINDING THE SHAH INDIRECTLY BUT CLEARLY THAT (A) THE SHAH OWES A GREAT DEAL TO PAST US AND WEST EUROPEAN SUPPORT AND (B) THE SHAH HAS NO ALTERNATIVE BUT TO CONTINUE RELIANCE ON SUCH SUPPORT IN THE FUTURE. THE SCENARIO COULD TAKE THE GUISE OF A DISCUSSION OF THE OVERALL US AND NATO RELATIONSHIP WITH IRAN. SALIENT TALKING POINTS SHOULD BE:

(1) THE TRIPLING AND QUADRUPLING OF WORLD PRICE FOR OIL IN 1973 WAS TOO RAPID. IT REPRESENTS A REVOLUTIONARY - NOT AN EVOLUTIONARY - CHANGE IN WORLD RELATIONSHIPS. IT THREATENS TO DESTABILIZE WORLD ORDER ON A REVOLUTIONARY ORDER OF MAGNITUDE.

(2) A WORLD RECESSION ACCOMPANIED BY AN INTERNATIONAL BALANCE-OF-PAYMENTS CRISIS WILL HIT THE WESTERN ALLIANCE HARD. IT WILL ALSO NULLIFY GAINS MADE BY WESTERN ECONOMIC ASSISTANCE TO LDCS, THUS UNDERCUTTING WESTERN CREDIT THERE AND ADDING LDC INSTABILITY TO THE WEAKNESS OF THE US AND ITS WEST EUROPEAN ALLIES. THE SOVIETS WILL BE THE ONLY ONES TO GAIN. THEY WILL SEE THE "CONTRADICTIONS OF CAPITALISM" ASSERTING THEMSELVES. THEY MIGHT EASILY BE TEMPTED TO FOREIGN ADVENTURE.

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(3) UNDER THOSE CIRCUMSTANCES KISSINGER WOULD WONDER HOW MUCH POLITICAL SUPPORT THE US AND WESTERN EUROPEAN GOVERNMENTS SUCH AS THE BRITISH, GERMANS, OR FRENCH COULD GIVE IRAN. THE US HAS BEEN HAPPY TO ENCOURAGE THE BUILD-UP OF IRANIAN MILITARY FORCES AND INTERNAL ECONOMIC STRENGTH WHICH PROMISES TO MAKE IRAN A STRONG AND IMPORTANT BASTION OF STABILITY IN THIS PART OF THE WORLD. HOWEVER, THE SHAH SHOULD CERTAINLY BE UNDER NO ILLUSION THAT IRAN COULD GO IT ALONE AND DERIVE AS MUCH SECURITY FROM JOINING THE SHIFTING RANKS OF THE NON-ALIGNED AS IT DOES FROM ITS STRONG PRESENT IDENTI-

FICATION WITH THE US AND THE WESTERN WORLD.

(4) CERTAINLY CENTO REMAINS AN IMPORTANT SYMBOL OF THAT IDENTIFICATION. THE ASSURANCE THAT THE US WOULD NOT STAND IDLY BY IF IRAN WERE THREATENED BY A POWERFUL NEIGHBOR CONSTITUTES PART AND PARCEL OF THAT IDENTIFICATION.

(5) SUCH IDENTIFICATION HAS PROVED VALUABLE TO IRAN IN THE PAST. (HERE THERE COULD BE A BRIEF RECITAL OF INSTANCES EVINCING US POLITICAL SUPPORT FOR IRAN IN THE IMMEDIATE POST-WAR YEARS, AS WELL AS FOR THE SHAH HIMSELF IN THE MOSSADEGH PERIOD. MORE RECENTLY, THE WEST HAS ENCOURAGED IRAN'S NEIGHBORS TO ACCEPT IRAN ON IRAN'S OWN TERMS. IRAN'S IDENTIFICATION WITH THE WEST HAS CERTAINLY CONTRIBUTED TO THE SHAH'S FEELING OF SECURITY IN CARRYING OUT HIS KURDISH POLICY, HIS OCCUPATION OF THE GULF ISLANDS, AND THE LARGER ROLE TO WHICH HE ASPIRES ON IRAN'S BEHALF IN THE GULF AND SOUTH ASIA MORE GENERALLY.)

(6) SUCH IDENTIFICATION IS A VALUABLE/NATIONAL ASSET. IRAN SHOULD NOT ALLOW IT TO DETERIORATE MERELY TO DERIVE A MAXIMUM NATIONAL INCOME BY EXTRACTING THE MAXIMUM ECONOMIC ADVANTAGE FROM ITS POSSESSION OF A SCARCE WORLD RESOURCE. SOME SACRIFICE IN INCOME WILL BE WELL COMPENSATED BY SECURITY. SUCH SACRIFICE REPRESENTS EVEN BETTER INSURANCE OVER THE LONG RUN THAN DOES EXTREMELY RAPID EXPANSION OF THE SHAH'S ARMED FORCES.

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(7) THE US AND ITS NATO (CENTO) ALLIES RECOGNIZE THE IMPORTANCE OF STRONG IRANIAN ARMED FORCES. BUT WOULD THE BUILDUP BE AFFECTED IF IRAN'S RECEIPTS FROM OIL EXPORTS DECLINED SLIGHTLY? AFTER ALL, ARMED FORCES CONSTANTLY REQUIRE MODERNIZATION. NEW SOPHISTICATED ARMS WILL BE DESIRED BY IRAN, AND BECOME AVAILABLE IN THE WEST, OVER THE NEXT DECADE OR TWO. WHERE ELSE COULD THESE COME FROM? ONLY THE SOVIET UNION CAN OFFER ALTERNATIVE SUPPLY. WOULD RELIANCE ON THE SOVIET SOURCE BE A WISE POLICY FOR IRAN TO FOLLOW?

(8) WHAT THE ARGUMENT BOILS DOWN TO IS THIS: WE RECOGNIZE THAT OIL HAS BEEN PRICED BELOW ALTERNATIVE SOURCES OF ENERGY IN THE PAST. WE AGREE THAT OIL-PRODUCING NATIONS HAVE A RIGHT TO HIGHER REVENUES FOR THIS RESOURCE. HOWEVER, EVOLUTION MUST BE THE KEY. WE COULD

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AGREE TO, SAY, DOUBLING THE PRICE IN 1973-74, WITH A FURTHER DOUBLING SPACED OUT OVER THE NEXT 10-15 YEARS. THIS WILL BE A HARD BLOW TO WORLD ECONOMIES, BUT PROBABLY BEARABLE. IT WILL GIVE THE WORLD 15 YEARS TO DEVELOP ALTERNATIVE SOURCES OF ENERGY. WE CAN THEN AGREE THAT IRAN AND OTHER OIL PRODUCERS ARE DOING THE WORLD A FAVOR--AS THEY CLAIM (SEE AMOUZEGAR ARTICLE IN TIME AND RECENT DISCUSSION WITH SOBER). BUT WE NEED THAT BREATHING PERIOD TO DEVELOP ALTERNATIVE ENERGY, AS WELL AS THE INSTITUTIONS TO COPE WITH THE FINANCIAL PROBLEMS OF INTERNATIONAL OIL. THE US AND WESTERN EUROPE, NOT TO MENTION THE LDC'S, NEED THE SHAH'S COOPERATION AND HELP. WITHOUT IT, WORLD POLITICAL ALIGNMENTS WILL BEGIN TO CHANGE. THIS WILL NOT BE TO IRAN'S ADVANTAGE ANY MORE THAN TO OURS.

(9) SPECIFICALLY, WE REQUEST THE SHAH'S COOPERATION WITH SAUDI ARABIA IN BRINGING OIL PRICES DOWN TO ABOUT \$7.00 A BARREL. A RISE IN A FEW YEARS WOULD BE NORMAL, TO MATCH INFLATION. THIS COULD EVEN BE HANDLED BY SOME FORM OF INDEXING--BUT THOSE SOPHISTICATED PROCEDURES WILL TAKE TIME TO WORK OUT. NOW IS THE TIME TO BRING OIL PRICE UNDER CONTROL.

D. COLLATERAL FACTORS.

(1) PRELIMINARY TO THIS APPROACH COULD BE A VISIT TO THE SHAH BY ANOTHER U.S. REPRESENTATIVE (PERHAPS

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AMBASSADOR HELMS). HE WOULD PRESENT THE SHAH A GRAPHIC ILLUSTRATION OF THE BALANCE-OF-PAYMENTS DEFICITS SOME OF THE MAJOR INDUSTRIAL NATIONS OF THE WORLD ARE PROJECTED TO ACCRUE OVER THE NEXT FEW YEARS. THESE FIGURES IN BILLIONS OF DOLLARS SHOULD PROVIDE A USEFUL BACKDROP TO THE SECRETARY'S APPROACH.

(2) BEFORE MAKING THIS APPROACH, OR EVEN IMMEDIATELY AFTERWARD, THE SECRETARY SHOULD SEEK BRITISH CONCURRENCE AND COOPERATION. THIS SHOULD NOT BE DIFFICULT TO GET INsofar AS IT INVOLVES CONCERNS WHICH ARE EVEN MORE IMPORTANT TO WESTERN EUROPE'S FUTURE THAN TO OURS, AND ABOUT WHICH WE KNOW THE BRITISH AMBASSADOR IN TEHRAN (FORMERLY FCO UNDERSECRETARY IN LONDON) HAS BEEN SPEAKING TO THE SHAH. OUR MAIN AIM WITH THE BRITISH SHOULD BE TO ASSURE OURSELVES THAT THEY WOULD GO ALONG WITH OUR IMPLICIT THREAT TO WITHHOLD SOPHISTICATED ARMAMENTS AND POLITICAL SUPPORT FROM THE SHAH IF IT CAME TO THAT.

(3) SHOULD IT COME TO THAT, WE SHOULD TRY TO GET THE FRENCH IN LINE TOO. THAT COULD BE TACKLED WITH THE ASSISTANCE OF THE GERMANS, THE BENELUX, AND THE BRITISH. BUT IT IS NOT NECESSARY AT THE FIRST STAGE. THE CHANCES ARE THAT THE SHAH WILL SEE THE LOGIC OF BUYING SECURITY WITH A BIT OFF THE TOP OF HIS NEW WINDFALL OIL PROFITS. THIS IS LIKELY TO BE A TOUGH GAME OF DIPLOMATIC NERVES - BUT NOT ONE IN WHICH ULTIMATE CARDS HAVE TO BE PLAYED.

(4) ACCOMPANYING THIS PRIVATE APPROACH SHOULD BE A MORE CONCERTED EFFORT TO COUNTER THE SO-CALLED HUMANITARIAN ARGUMENTS FOR HIGH OIL PRICES PRESENTED BY SPOKESMEN SUCH AS AMOUZEGAR TO THE PUBLIC MEDIA. THE THEME THAT OIL PRICES HAVE RISEN UNCONSCIONABLY FAST AND THAT THE WORLD NEEDS A TRANSITION PERIOD SHOULD BE DRUMMED INTO PUBLIC CONSCIOUSNESS.

(5) PREDICTABLY THERE WOULD BE DOMESTIC STATIC FROM U.S. ARMS INDUSTRY SALESMEN. WE SHOULD BE ABLE TO LIVE WITH IT IN THE CONTEXT OF THE MORE IMPORTANT ECONOMIC/INDUSTRIAL INTEREST IN LOWER OIL PRICES.

. THAT, AS SECRETARY KISSINGER WOULD SAY, IS THE BIG SECRET

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POLICY PICTURE. THE TACTICAL DETAILS CAN BE ELABORATED

IF THE POLICY IS PUT INTO PRACTICE.

4. DEPARTMENT REPEAT SECRETARY'S PARTY AND OTHER
ADDRESSEES AS DESIRED.

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Message Attributes

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